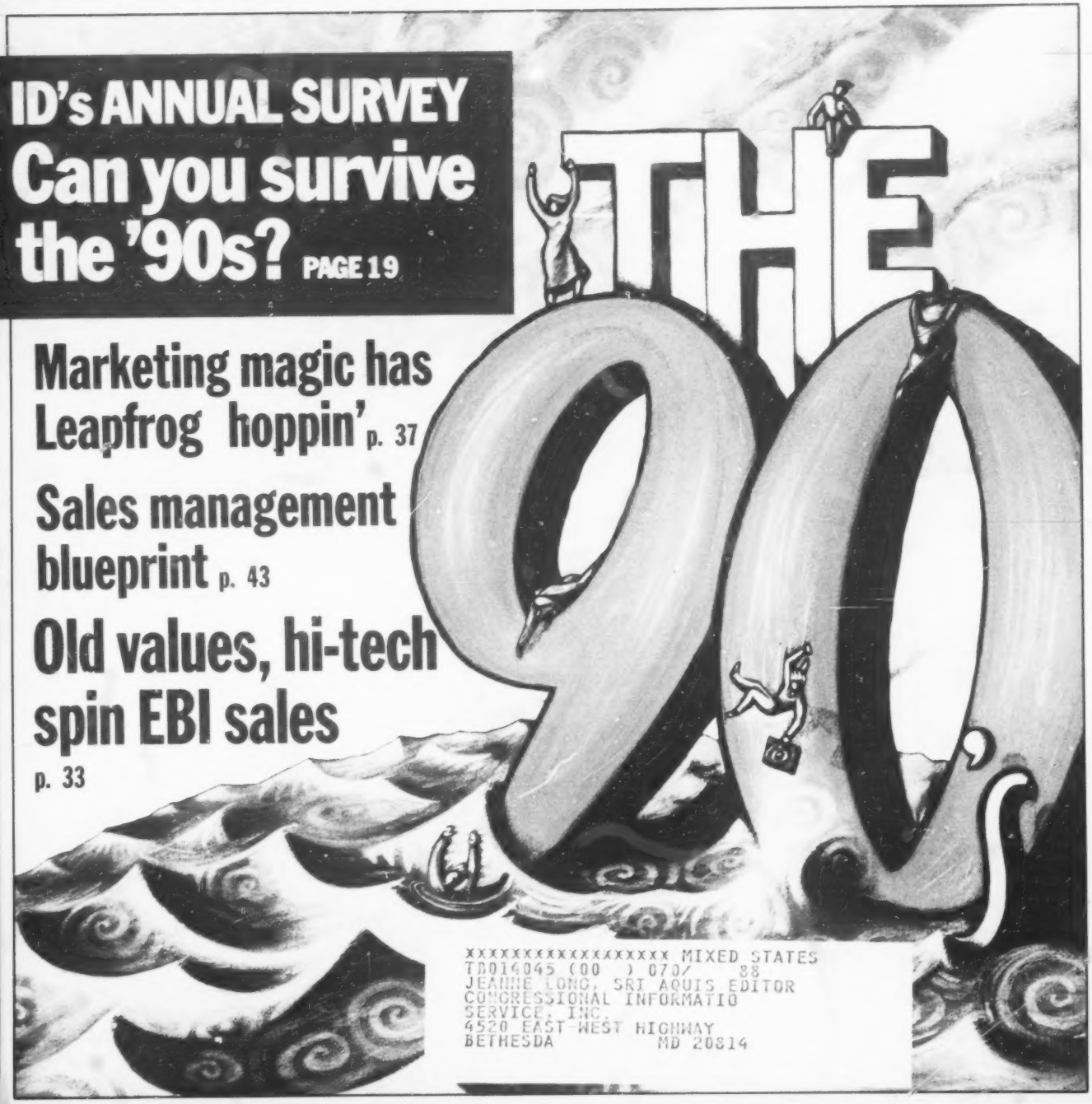
JULY 1991

EXCLUSIVE
1991 Salary Survey Questionnaire p.9

INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

ID's ANNUAL SURVEY
Can you survive the '90s? PAGE 19



Marketing magic has Leapfrog hoppin' p. 37

Sales management blueprint p. 43

Old values, hi-tech spin EBI sales p. 33

XXXXXXXXXXXXXXXXXX MIXED STATES
TD014045 (00) 070/ 88
JEANNE LONG, SRI AQUIS EDITOR
CONGRESSIONAL INFORMATIO
SERVICE, INC.
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

Getting paid for services will help you survive the '90s.—p. 19

EBI uses old values and high technology to win new sales.—p. 33

Here's a dynamic example of how to get and keep customer attention.—p. 37

JULY 1991

A CAHNERS PUBLICATION

Vol 80, No.9

INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

FEATURES

19 To survive, put value in your value-added
ID's 45th annual survey shows that distributors sold more product last year but made less money. To prosper, you need to find ways to charge for value-added services.

33 How to gauge the market's race
Eastern Bearings Inc. keeps ahead of the competition by communicating electronically with customers.

37 Marketing . . . by leaps and bounds
Through brilliant marketing and promotional materials, Leapfrog Technologies keeps sales hoppin' at Gardena Industrial Supply.

MANAGEMENT

7 Editorial
Better days ahead for industrial distributors.

41 Pacesetters
Carl F. Walz, CRC Industries

67 Business Report
Steady growth for OEM sector.

68 Clifton's View
Auto sales continue to slide.

SALES & MISC.

43 Strictly for Sales
Provide your sales managers with the tools they need to manage.

66 Business Staff

64 Classified Marketplace

62 Distribution Mart

NEXT MONTH: Purchasing pros and their distributor partners share insights into total quality and total cost.

DISTRIBUTOR'S UPDATE

5 At Press Time
AIAG issues EDI guidelines; Scan-Tech to draw record crowds; Kisel elected BSA president; Fastener regulations delayed.

11 News
IDC takes a look at quality; Company car use to continue; Sawin captures top award; 3M wins American Eagle; CT to reorganize; MSC and GTE Valenite sign marketing agreement.

17 Letters

45 Association News

45 Calendar

PROFITABLE IDEAS

47 Computers
Local area networks continue spectacular growth.

49 Products for Profit
New products you can sell.

61 Sales Aids
New brochures, spec sheets and supplier catalogs.

Industrial Distribution®, (ISSN 0019-8153, GST Reg. #123397457) is published monthly with extra issues in January, May, September and November by The Cahners Publishing Co. Cahners is a Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Frank Sibley, Executive ..ce President; Jerry D. Neth, Senior Vice President/Publishing Operations; J.J. Walsh, Senior Vice President/Finance; Thomas J. Dellamaria, Senior Vice President/Production and Manufacturing; Ralph Knupp, Vice President/Human Resources. INDUSTRIAL DISTRIBUTION® is a registered trademark of Reed Properties Inc., used under license. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5800. Telephone: (303)388-4511. Second-class postage paid at Denver, CO 80206-5800 and additional mailing offices. **POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION®, PO Box 173377, Denver, CO 80217-3377.**

INDUSTRIAL DISTRIBUTION® copyright 1991 by Reed Publishing USA. Ronald G. Segal, Chairman and Chief Executive Officer; Robert L. Krakoff, President and Chief Operating Officer; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $64.95 per year; Mexico, $99.95 per year; Canada, $106.95 per year; all other countries, $109.95 per year for surface mail; $229.95 per year for air mail. Subscriptions include all issues. Except for special issues where price changes are indicated, single copies are available for $15. Please address all subscription mail to Carla Keller, 44 Cook Street, Denver, CO 80206-5800. **REPRINTS:** for quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018, (708) 635-8800.

EXCLUSIVE SURVEY

Can you survive the '90s?

Once again, ID's Annual Survey of Distributor Operations takes the industry's pulse. The prognosis: while there's no need to panic, it's clear that profits are going to be tough to come by in the years ahead.

OVERVIEW

'I'm not sure anybody has figured out a way to charge for service.' PAGE 20

MANAGEMENT

'The survey indicates that acquisition activity is slowing down.' PAGE 22

COMPUTERS

'A whopping 89% of those surveyed say their firms are computerized.' PAGE 24

PERSONNEL

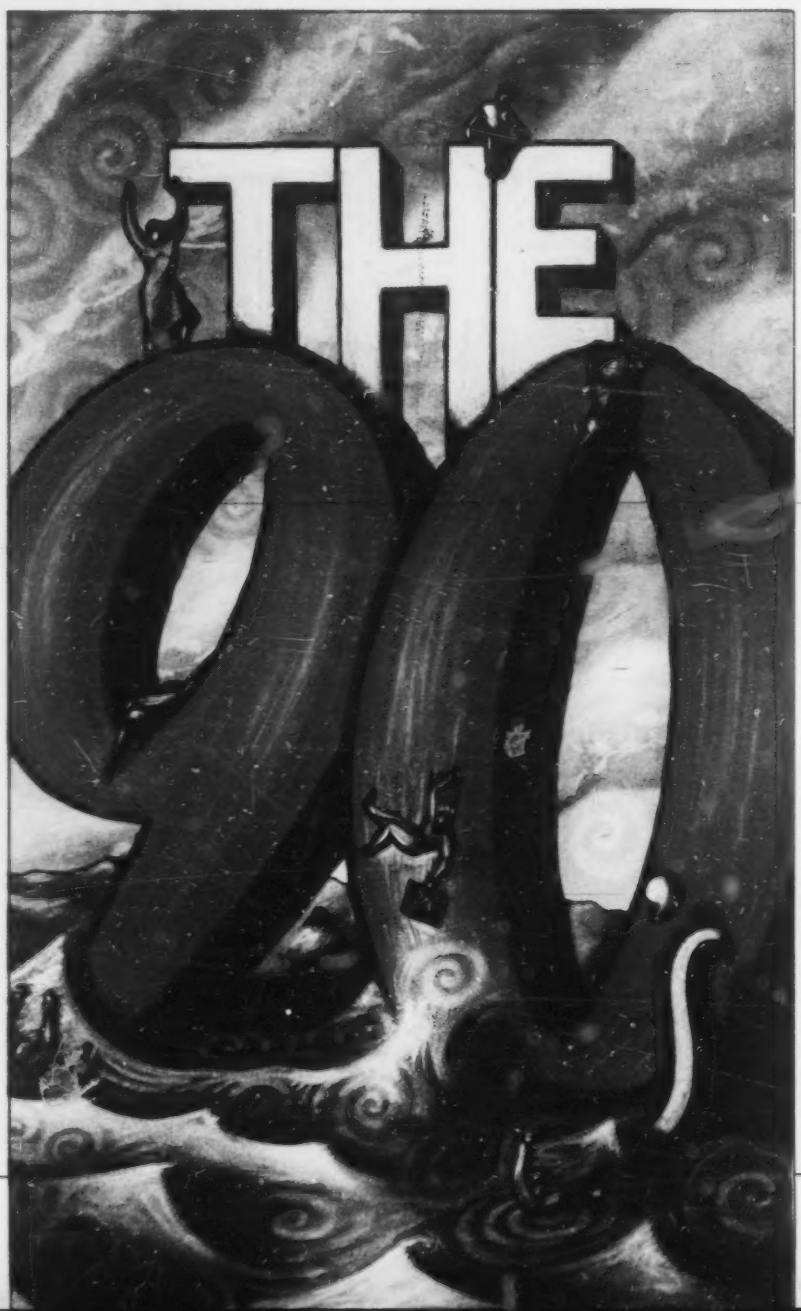
'Distributors are being cautious with their hiring practices.' PAGE 26

INVENTORY

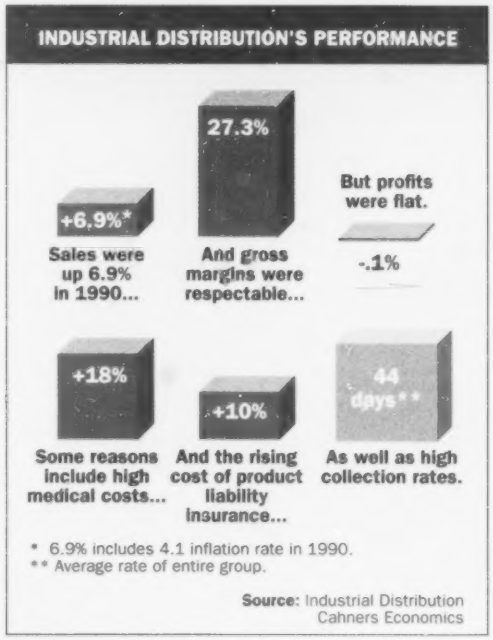
'Suppliers are helping distributors keep inventories down to meet customer jit needs.' PAGE 28

SURVEY INFO

'The list included distributors from almost every segment of the industry.' PAGE 30



Troy Thomas


INDUSTRIAL DISTRIBUTION'S PERFORMANCE
+6.9%*
Sales were up 6.9% in 1990...
27.3%
And gross margins were respectable...
But profits were flat.
-.1%
+18%
Some reasons include high medical costs...
+10%
And the rising cost of product liability insurance...
44 days**
As well as high collection rates.
* 6.9% includes 4.1 inflation rate in 1990.
** Average rate of entire group.
Source: Industrial Distribution Cahners Economics

To survive, put value in your value added

Distributors sold more product last year, but took home less. If you're going to prosper in the '90s, you must find creative ways to charge for value-added services.

By Steve Zurier, Senior Editor

Things were tough for industrial distributors last year. Without question, the recession that began a month before Saddam Hussein's Aug. 2 invasion of Kuwait had a dramatic impact on the industry. As a group, sales rose only 6.9% when adjusted for inflation. And profits were flat.

Truth be told, 1990 was not the first year in recent memory that distributor sales were up, but profits were down. In fact, industrial distributors say profit margins are historically low in this industry. Many say the average distributor is lucky to hit 2% net profit after tax as a percentage of sales.

According to the *45th Annual Survey of Distributor Operations*, the average net profit after tax number for 1990 is up a little higher, at 3.6%. But compared with W.W. Grainger, Inc.'s 1990 net profit of 6.6%, the average industrial distributor has a long way to go.

Some explanations

Why is profitability so low? The *Survey* points to rising operating costs and poor collection rates as some of the reasons distributor profits were flat last year. For example, the *Survey* found that the average cost of medical insurance increased 18% in 1990, product liability insurance costs jumped 10%, and on average, collections were running in excess of 44 days.

When presented with the results of the *Survey*, not one industrial distributor was surprised. Most everyone agreed that since Aug. 2, 1990, the combination of rising costs and poor economic conditions made running a profitable distributorship a struggle.

The only bright spots were the South (includes Texas), which had a 19% sales gain, and the Central Region, which jumped 15%. The West jumped 15% last year, but it was down from 23% growth the year before. Elsewhere around the country, the Northeast was up 9% overall, as was the Southeast. And the North Central, which includes the automotive states of Michigan and Ohio, came in at 0% growth—a number which given the performance of the major automobile makers, is hardly surprising.

What about value added?

Yet another explanation for low profitability is that distributors are investing more on so-called value-added services, but have not found an effective way

to charge for these services. While the *Survey* does not confirm this in an authoritative way, it does provide some insights into the value added question. Some of the *Survey's* results are as follows:

- 55% say they are allocating more resources to their marketing effort.
- 52.2 agree that to prosper in the next 10 years, they must invest more heavily in computer technology.
- 54.3% say they must provide engineering capabilities.
- 68.4% say that they must hire technically inclined inside and outside salespeople.

It's not that simple

Value added has always been a tricky area for distributors. After all, it can take four, maybe five calls before an outside salesperson closes a sale. Many distributors readily admit they are uncertain over how to charge for consultations, training, tests and items as routine as order entry and deliveries.

But Rusty Duncan, of Machine Tool Supply in Eagan, Minn., says that distributors must recognize that if they don't charge for these value-added services, customers won't think the services are worth anything.

"Too many industrial distributors don't sell the service as an additional cost to the customer," he says. "One of the ways we've handled this problem at our company is to provide electronic data interchange only to customers who generate enough sales volume to justify the added service."

Doug Smith, president of the Industrial Distribution Group in Tucker, Ga., says that industrial distributors can only charge their long-time customers for value-added services.

"I'm not sure anybody has figured out a way to charge for service," Smith says. "But I do believe that over time, as you develop a relationship with a customer, the intelligent ones understand that the distributor has to make a living too."

Bob Lyons, president of Thomas Industrial Products in Owings Mills, Md., whittled down the issue to three basic points. Lyons says that to become more profitable, a distributor must understand his cost structure, learn how to charge for value-added services and reduce costs by implementing the quality improvement process.

"I'm convinced we can do a better job in this area," Lyons says. "But I do agree that a distributor's best shot to pass off these costs is by developing long term relationships with his customers."

Other trends

Each year, ID's *Survey* pinpoints the trends that are having the greatest impact on the distribution industry. The *Survey* also provides insight on the issues most distributors consider less important.

One issue that had decidedly little impact on the industry was the formerly "hot topic" of buying groups. The *Survey* found that 86.6% of the respondents don't belong to a buying group; 72.1% say that buying groups have little or no impact on their business; and 50% say they have no impact at all.

In addition, when asked about the impact of captive distribution, the mass merchants, distributor terminations, single sourcing, and mergers and acquisitions, we barely got a response.

The one overriding distributor concern for the upcoming year was economic conditions. In fact, 55.3% of the respondents listed the economy as their "Biggest Concern." But while a majority are concerned about what the future holds, a sizzling 60.1% expect sales to increase this year. And about 32% predict sales growth will top 10%. Talk about optimists!!!

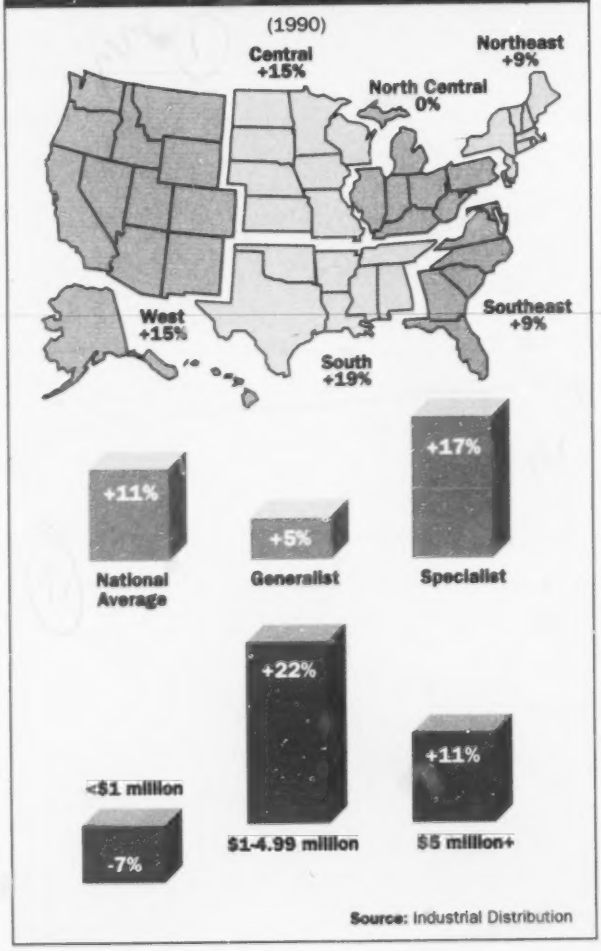
Conclusions

The Editors at ID urge you to read on carefully. We're convinced that this year's report is a fascinating snapshot of the distribution industry's performance, and a reliable source of data from which you can evaluate your business.

Can you survive the '90s? Given that the average distributorship has been in business 34 years, some even longer, ID knows you can. But you have to have the tools. The survey reports that distributor margins on average run at about 27.3%. While that's down slightly from last year, it's still fairly respectable.

The question you must ask yourself in these competitive times is that if sales are up, and gross margins are reasonable, why aren't industrial distributors as a group making money? We believe this report will help you get to the bottom of this important question.

MEDIAN SALES BY BUSINESS REGION/TYPE/SIZE



Source: Industrial Distribution

MANAGEMENT

With the credit crunch, a weak junk bond market and war in the Persian Gulf, the frenetic days of merger mania ended on Wall Street in 1990. The fallout was so bad that *Business Week* shrunk its list of Top Deals from 200 to 100.

While billion-dollar deals went sour in 1990, experts predicted that smaller deals would be the norm. They said distributorships would be attractive to larger, highly capitalized companies, mid-sized distributors looking to stay competitive and Europeans seeking quick entry into the U.S. market.

It all makes sense. But the *Survey's* findings indicate that acquisition activity is slowing down. When asked if their company was approached with an acquisition offer in 1990, 77% said no, while a mere 23% said yes. This is compared with a 70% no, 30% yes response in 1989. The "no's" had it across the board this year. Seventy-two percent of the general liners said no, as did 80% of the specialty distributors and 82% of the combination houses.

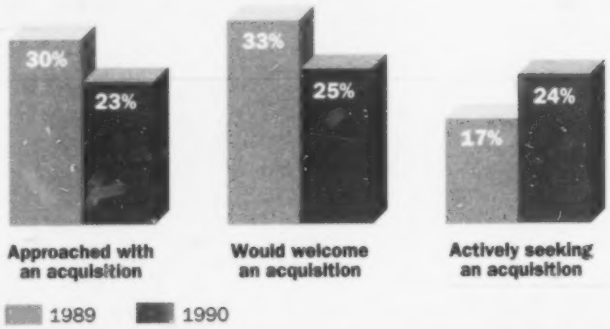
The category surveyed that reported the most acquisition activity was the $5 million+ houses. Twenty-seven percent of those who run larger houses say they *were* approached with an offer. And 29% of the houses surveyed in the $5 million+ category report they are actively seeking an acquisition.

The bad news for the deal makers is that 82% of the respondents in the $5 million+ category say they *wouldn't* welcome an acquisition offer. The answer: find the 18% who say they'd like to be acquired.

By far, the group that expressed the most interest in being acquired was the under $1 million category. Thirty-five percent of those polled in this group say they would welcome an acquisition offer. But only 17% said they were approached last year, which means that houses with sales under $1 million have a long way to go before they are attractive properties to the people making deals.

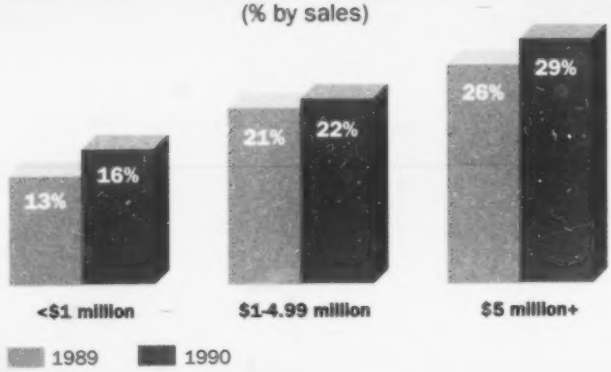
ACQUISITION ACTIVITY IN 1989/90

(% overall)



ACTIVELY SEEKING TO ACQUIRE

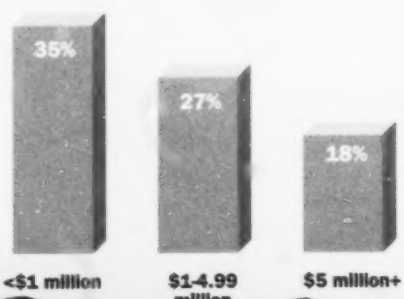
(% by sales)



LIKELY ACQUISITION CANDIDATES

(% saying yes by sales)

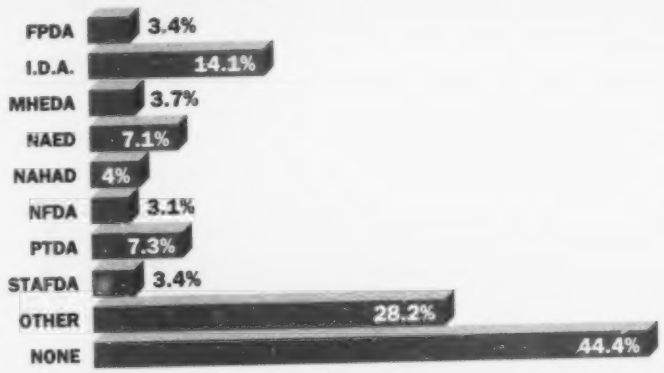
Would your company currently welcome an acquisition offer?



Source: Industrial Distribution

ASSOCIATION MEMBERSHIP

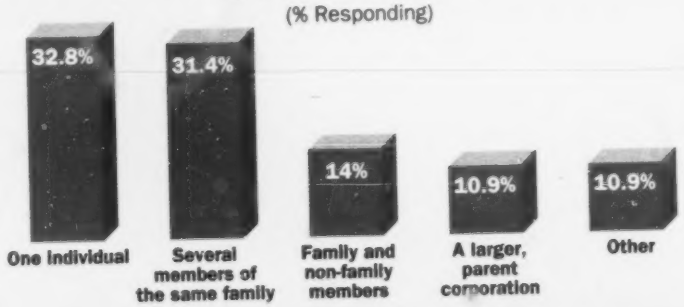
(total membership)



WHO OWNS AMERICA'S DISTRIBUTORSHIPS?

My company is owned by...

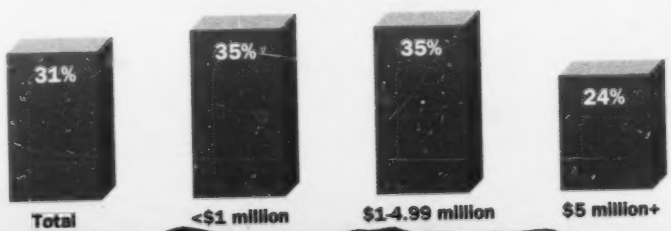
(% Responding)



FAMILY OWNERSHIP

Percentage of companies owned by several members of the same family.

(% by sales)



Source: Industrial Distribution

One of the most effective management tools a distributor has is an association membership. After all, trade associations generally publish sales and profitability information, and hold valuable training seminars at annual and seasonal conventions.

But 44.4% say they don't belong to a distributor trade group. And another 28.2% wrote in "other" when asked which trade group they belong to. The most popular group in our sample was the I.D.A., with 14.1% reporting membership in the combined trade group. Other groups cited were PTDA, with 7.3% reporting membership, NAED, 7.1%, NAHAD, 4%, and MHEDA, 3.7%.

Much is made of the distributor's independent nature. Unfortunately, independent people are typically not joiners. And based on this year's *Survey*, the industry's leading trade groups may have a tough job ahead attracting new members because most distributorships are still independent.

The *Survey* found that 32.8% of the firms polled are owned by one individual, 31.4% are owned by several members of the same family and 14% are owned by family and non-family members. Only 10.9% are owned by a parent corporation, with the remaining 10.9% writing in "other." So despite reports of highly leveraged companies buying into distribution, our *Survey* found that the industry remains a bastion of the family-owned business.

This conclusion is hard to argue, particularly when you look at the results by sales. Slightly more than 46% of the under $1 million firms are owned by one individual, as are 28% of the $1-4.99 million companies and 31.8% of the $5 million+ houses. In addition, 35% of the under $1 million firms are owned by several members of the same family, while 35% of the $1-4.99 million companies are owned by several members of the same family, as are 24% of the $5 million+ houses. Two messages to family members: Number one, the slowdown in the aquisition trend should give you enough time to plan for the future. Number two, consider membership in a trade association. It could be a first step in ensuring your company's long-term profitability.

COMPUTERS

When industrial distributors speak of how they're going to stay profitable in the years ahead, more often than not, the conversation turns to computers and data processing. In fact, a whopping 89% of those surveyed say their companies are currently computerized. Broken down by sales, 98% of the $5 million+ houses are computerized, as are 90% of the $1-4.99 million companies and 67% of the under $1 million firms.

When asked if they had to invest more heavily in computers in order to prosper during the next 10 years, a majority (52%) replied yes, while 48% said no. Analyzed by sales, 61% of the $5 million+ houses said yes, as did 49% of the $1-4.99 million houses and 41% of the under $1 million firms.

There are two main areas in which distributors will be investing during the next few years. One area is electronic data interchange (EDI). Forty-three percent overall say they use EDI, 84% with customers and 65% with suppliers. This is up from a year ago, when only 16% overall reported using EDI.

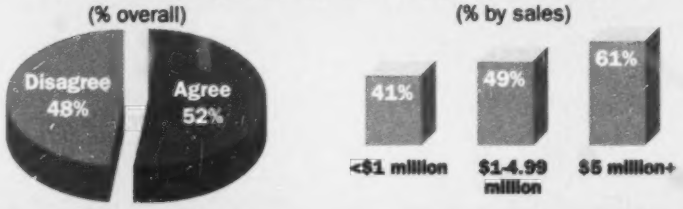
But even more significant, 64% of the $5 million+ distributorships have made investments in EDI, compared with 30% of the $1-4.99 million industrial supply companies and a mere 15% of the under $1 million.

Bar coding is the other piece of technology distributors are currently experimenting with. While only 11% say they have implemented bar coding thus far, 45% overall plan to do so within the next three years. Significantly, 64% of the $5 million+ houses plan to use bar coding within the next three years.

So if industrial distributors aren't profitable in 1991, it's not because they aren't investing in new computer technology. From now on, distributors will have more access to information than they've ever had in years past. The key is not merely obtaining the information. It's understanding and using it effectively.

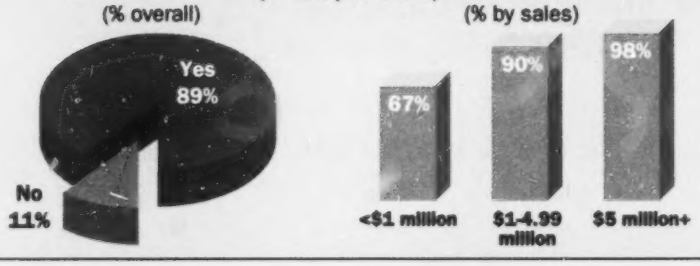
VIEW OF DATA PROCESSING

In order for my company to prosper in the next 10 years, my company should invest more heavily in computers.



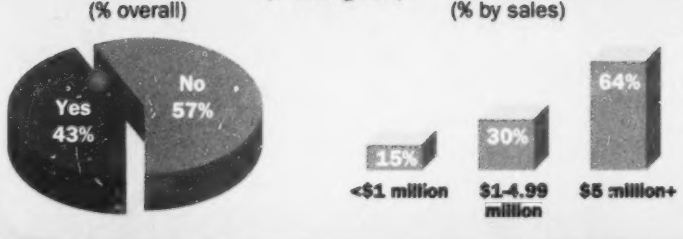
COMPUTER USE

(% computerized)



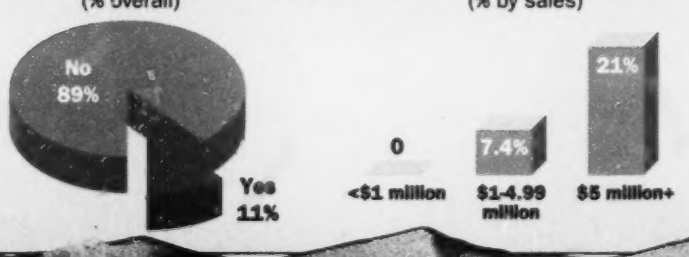
EDI USE

(% using EDI)



BAR CODING

(% using bar coding)



Source: Industrial Distribution

PERSONNEL

Distributors held fairly steady with their personnel practices in 1990. The median number of full-time employees was 17, up from 16 the year before. Broken down by type of distributor, the generalists were at 19, up from 18 the year before; the specialty houses were at 15, up from 14 the year before; and the combination houses were at 19, up from 18 the year before.

Taken by size, the median number of employees for the under $1 million houses dropped to 4 from 5 the year before; held steady at 12 for the $1-4.99 million companies; and inched up to 49 from 48 the year before for the $5 million+ houses.

According to the *Survey*, there won't be much change in 1991. For example, 62% say they will maintain the same number of full-time employees, and another 9% say they will be using fewer full-time employees. Only 29% overall say they will be hiring more full-time employees—bad news for job seekers.

Taken by size, the news is even worse for those looking to land a job with a $5 million+ house. Nearly 16% of the respondents in that category said they were hiring fewer full-time employees, compared with 6.8% in the $1-4.99 million category, and 3.4% of the under $1 million houses.

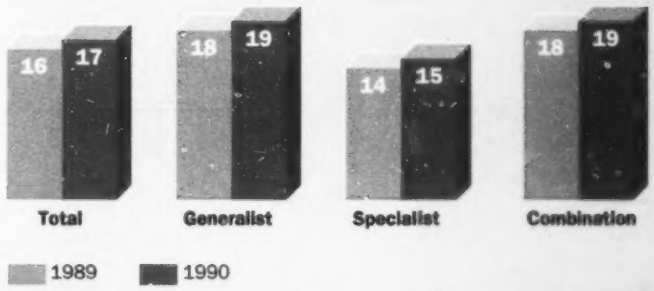
If there is to be hiring, job seekers should look to the $1-4.99 million and under $1 million companies. Nearly 34% of the $1-4.99 million firms said there were hiring more full-timers, as did 33% of the under $1 million firms.

But while job prospects are slim overall, there is some good news for full-timers lucky enough to keep their jobs. When asked if their company planned to use part-time employees to replace full-time employees, a whopping 85% said no, while 15% said yes.

The lesson here: With slight sales increases and intense pressures on profits, distributors are being cautious with their hiring policies.

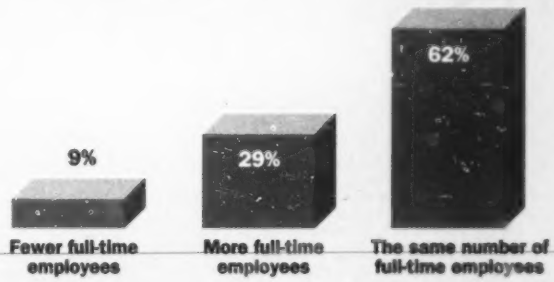
NUMBER OF FULL-TIME EMPLOYEES

(median number by type)



HIRING PLANS

During 1991, your company will employ...



PART-TIME EMPLOYEES

In 1991, is your company planning to use part-time employees to replace full-time employees?

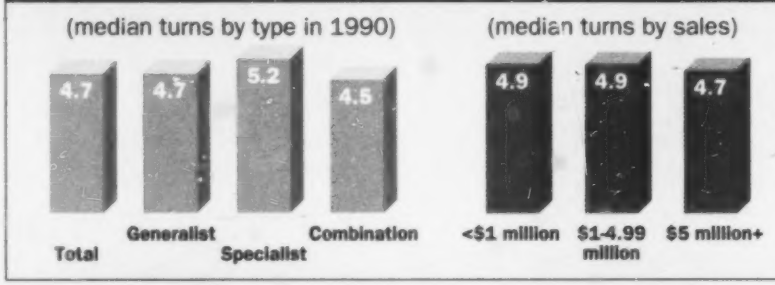
Source: Industrial Distribution

INVENTORY

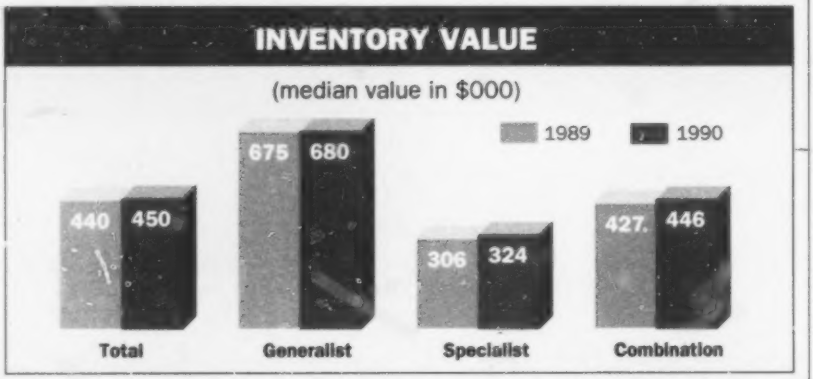
The specialty houses distinguished themselves last year in the inventory turn arena. In terms of median numbers, the specialists outperformed the overall group by one-half of a turn, 5.2 to 4.7. The generalists turned their inventory 4.7 times, while the combination houses stood at 4.5.

Inventory value increased 2% from 1989 to 1990. The general liners held steady, while the specialty houses increased inventories by 6%, and the combination houses upped inventories by 5%. Broken down by sales, the under $1 million houses cut their inventories by 5%, while the $1- 4.99 million firms ticked up 2 percentage points and the $5 million+ firms increased by 5%. What does this mean? Two possibilities. Number one, distributors are being cautious. Number two, suppliers are helping distributors keep inventories down to meet customer JIT needs.

MEDIAN INVENTORY TURNS



INVENTORY VALUE



Source: Industrial Distribution

Metal Working Fluids

FISKE
FISKE
FISKE
FISKE
FISKE
FISKE®

Give your customers freedom of choice with a variety of quality fluids and convenient packaging.

405 CUTTING OIL
This premium dark pipe threading oil is recommended for use on low or high carbon steels, alloys and stainless steels where difficult conditions of service are encountered.

1230 CUTTING OIL
A clear, transparent oil for greater visibility.

NO. 35 SOLUBLE OIL
A quality, general purpose, water soluble cutting oil for a stable, milky white emulsion.

METSOL
For cutting and grinding when biodegradability is the major concern. Forms transparent emulsion or may also be used straight.

All Fiske Metal Working Fluids are available in 1 gallon jugs, 5 gallon pails, 16 and 55 gallon drums.

Fiske Brothers Refining Company / 129 Lockwood Street / Newark, NJ 07105
Newark Plant 201-589-9150 or FAX 201-589-4432 / Toledo Plant 419-691-2491 or FAX 419-693-3806

Quality & Performance Since 1870

► CIRCLE NO. 18

Important Facts About the Survey

Methodology

The data for this year's *Survey* was compiled by a research group hired by ID. Taking their lead from a questionnaire compiled by the editors, the researchers conducted 350 telephone interviews, 150 with general liners, 150 with specialists and 50 with owners of combination houses. The list included distributors from almost every segment of the industry, and every size and type. Companies were selected randomly from the magazine's subscription list.

Distributor types are defined as follows: Generalist (42%)—no one product category contributes 50% or more to total sales; Specialist (42.3%)—more than 50% of total sales comes from one major product category; Combination House (15.7%)—sells product to industrial and non-industrial markets while also wholesaling product. Statistical assistance was provided by Cahners Research, which estimates the *Survey's* margin of error as ± 6%.

Medians and averages

To enhance the value of data in this report, readers will find some numbers expressed as medians, others as averages. Medians define the midpoint in a statistical range—half of any group will be larger than the median, and half smaller. Medians are generally used on open-ended questions, are more representative of a group, and are less distorted by extremes. An average is simply the sum of one group divided by its total number of respondents.

How to order the Survey

The *45th Annual Survey of Distributor Operations* is a 100+ page report containing original statistics on general line, specialty and combination distributors. Operations are measured by type of firm, sales size, and by six geographic regions. Its contents are divided by sales and profits, gross margins, management, personnel, computers, and inventory and receivables. A copy is $195 prepaid. This price includes postage. Send your check to Diane Doucette, ID, P.O. Box 37, Boston, Mass. 02258, or call (617) 558-4346. ID

Tru-Flex Is The Leader
In Flexible Metal Hose!

For dependable, quality flexible metal hose, call Tru-Flex Metal Hose Corp. Standard and Tru-Flo Smooth Bore Lined flexible metal hose are manufactured for many applications and product transference:

- Air Intake/Exhaust
- Pellets/Grains
- Powders/Dust
- Semi Liquid
- Fly Ash
- Tar & Asphalt
- Chimney Liners
- Truck & Automotive Exhaust

Tru-Flo metal hose can be manufactured from various grades of stainless steel, galvanized steel, aluminum, and carbon steel. Custom lengths and connectors are available upon request. For more information and pricing, 1-317-893-4403; FAX: 1-317-893-4114.

1-317-893-4403

TRU-FLEX
METAL HOSE
CORP.
Since 1962
Highways 263 & 28 • Box 247 • West Lebanon, IN 47991

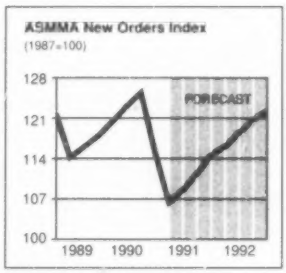
By Paul Waters

OEM recovery on the horizon

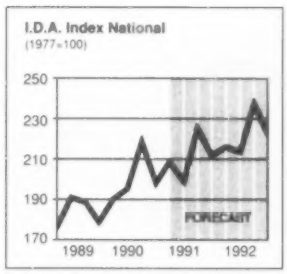
Steady growth for this sector into '93.

Output in the original equipment manufacturing (OEM) sector continues sluggish. Cash flow problems are delaying investments among capital equipment and transportation producers. The production of engines and turbines, however, has benefited from commercial aviation, heavy construction, and military activity. Farm machinery output has been flat after registering solid gains throughout 1990.

Two other industries registering upticks in the first quarter were computers and office equipment and metalworking machinery. The computer sector has performed well, since the cheap dollar and overseas expansion have spurred exports.



Data source: ASMMA
Forecast source: Cahners Economics

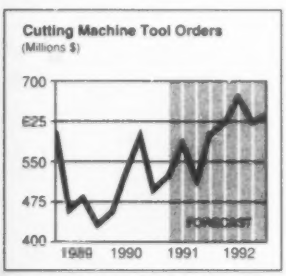


Data source: I.D.A.
Forecast source: Cahners Economics

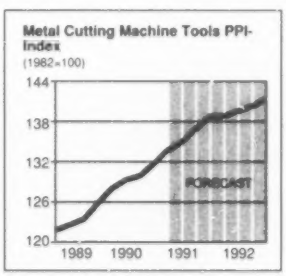
Machine tools, which account for the bulk of metalworking machinery, are at the tail end of an expansion that peaked in 1988 and 1989. The current slowdown, however, will last only through this year. Total machine tool orders will rise 5% this year before jumping 11.1% in 1992. Most of the strength will be in cutting machines; expect a 6.7% jump in bookings this year and a 14.7% surge in 1992. Forming machine orders, on the other hand, will rise just 1% in 1991 and 2.2% in 1992. Prices on machine tools skyrocketed during the last expansion; in 1990, tags on metal cutting tools jumped 5.1%, while metal forming tool prices surged 9%. For 1991, expect prices to rise 4.9% and 3.8% on metal cutting and forming tools respectively. Inflation will be flat on machine tools in 1992.

The fabricated metals industries are bending under the recession's weight, with output expected to slide 3.6% this year. Next year's rebound, however, will bring 5.8% growth to the sector. Not surprisingly, weak end market demand will pull down hardware and tools production by 5.1% in 1991. Next year, however, the industry will manage a 1.3% production hike.

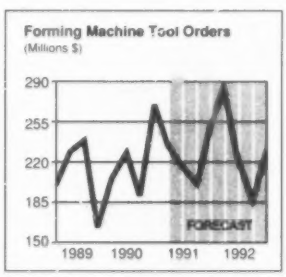
The bottom line is that the OEM sector will rebound by the end of the year, along with most other manufacturing industries. Export growth will be dampened a little by the rising dollar, but, by the time the European and Asian economies take off in 1992, the expansion will be in full swing in the U.S. The OEM side of manufacturing should see steady growth into '93.



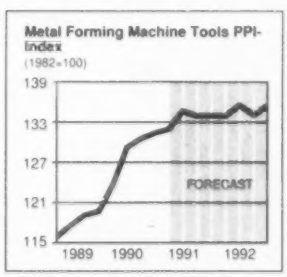
Data source: National Machine Tool Builders Assn
Forecast source: Cahners Economics



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics



Data source: National Machine Tool Builders Assn
Forecast source: Cahners Economics



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

(1977=100)	SALES Apr. 1991	SALES Mar. 1991	SALES Apr. '91 vs Apr. '90 % change	RECEIVABLES Apr. 1991 days	INVENTORY Apr.-Mar. 1991 % change
TOTAL	193.7	203.3	2.2	46.8	-1.0
EAST	209.2	197.6	33.0	42.4	-1.5
SOUTH	279.4	323.0	5.7	51.1	-0.7
CENTRAL	154.8	153.0	-5.6	44.2	-1.1
WEST	204.6	205.4	5.7	44.6	-0.2

SOURCE: Industrial Distribution Assn.

CLIFTON'S VIEW

By Robert G. Clifton

Sales are taking a third direct hit

Recession, imports, and now the auto sales slump season is here.

My June column focused on our automotive trade deficit and how it adversely impacts distributors when foreign goods substitute for those made in America. In addition to those factors hurting sales, we are now in the slack season for domestic auto sales.

We have fresh figures of those slowed sales to track, as the highly important domestic car and truck industry releases sales statistics every ten days.

April sales of domestically made vehicles were down 13% from April, 1990. Sales for the "Big Three," General Motors, Ford and Chrysler were down 16%. But the seven Japanese companies dropped only 4% in sales (see chart). The Japanese companies also increased their share of the U.S. domestic auto market from 24 to 26%. And the worst news is that the Big Three reported a combined loss of $2.3 billion in the first quarter, a record high.

However, car sales are subject to wide swings in demand. That's why auto stocks are labelled "cyclical" by Wall Street gurus. Being cyclical, auto sales can rebound high and fast when the consumer decides it's time to buy.

Some factors which will help this eagerly awaited upswing are lower interest rates, stabilized gas prices, and a widening perception that the quality improvement drive is real, not advertising puffery. It is also a time when the buyer has heavy leverage in bargaining prices with the dealer.

On the other hand, the quality revolution, while absolutely necessary for the U.S. companies to fend off foreign competition, has a two-edged market effect. Cars don't have to be replaced as frequently, because they hold up much better and have more durable engines. Also, the reduced emphasis on annual model changes gives the buyer one more reason to stay out of the dealers' showrooms. A main reason for less drastic model changes is the enormous cost of retooling.

One bright spot in the auto news is the drastically reduced sales of foreign luxury cars. Sales on those cars have been hit a one-two punch by the new federal luxury goods tax and a doubling of the tax on "gas guzzlers." Porsche and Jaguar sales are both off 54% this year and Mercedes sales are down 22%.

While slumping sales hit the makers of end products first, the impact quickly moves back the line of supply to distributors and original manufacturers.

Wnat is the impact on a distributor who relies on the auto companies as customers? George Hall, marketing manager for Hall Industries, Detroit, says that recently they've been approached by auto companies with requests that suppliers lower product costs on a scheduled annual basis. Hall presents those requests to his suppliers, and based on the degree of help and protection offered by the supplier manufacturers, prepares to negotiate contracts with the auto companies. "Some suppliers are able to be flexible while others are not," states Hall. "Our negotiating team lays the information on the table to the auto companies with the expressed hope that we can retain long term supply contracts." He adds, "We walk the last mile to show them we make every effort to fulfill their requirements."

Is there help at hand, preferably in the form of a rebound in domestic auto sales? The answers to this very big question are hard to come by. But even more elusive is a national consensus on which solutions will work to the mutual benefit of all concerned.

APRIL AUTOMOBILE SALES/CHANGES*

Manufacturer	1991	Change from '90
GM	249,974	-18.4%
Ford	135,907	-26.8
Chrysler	52,633	-19.9
American Honda	69,177	-8.7
Isuzu	1,284	+319.9
Mazda	25,197	+14.2
Mitsubishi	17,122	+14.5
Nissan	35,389	-6.1
Subaru	9,898	+1.2
Toyota	54,682	-18.7

*Percentage changes based on per-day sales.

Sources: Industrial Distribution, The Philadelphia Inquirer.